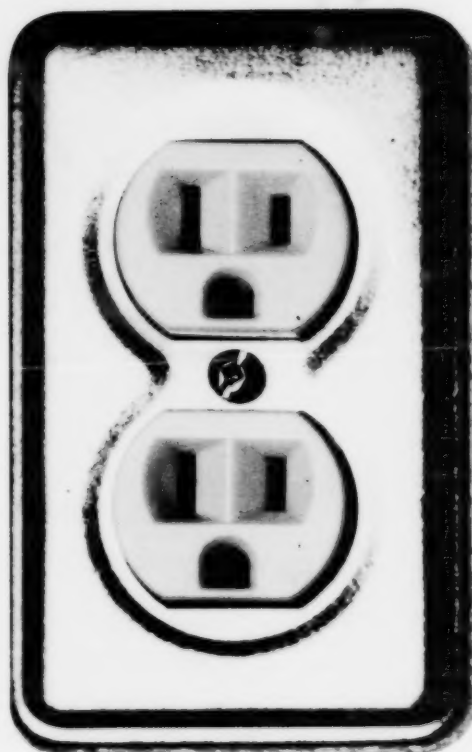


Energy. Generated for you.



Newfoundland and Labrador Hydro
2003 Annual Report



2003 Annual Report

MISSION

Newfoundland and Labrador Hydro is a Crown Corporation committed to providing cost-effective and reliable energy services to our customers for the benefit of all people of the province.

Our skilled and committed employees will use innovative methods and technologies, and will maintain high standards of safety and health, and environmental responsibility.

VISION

To be recognized as an innovative provider of quality energy services.

VALUES

The fundamental truths and principles practiced by Hydro and its employees in providing quality service to all its customers and stakeholders:

Integrity – Trust, respect, honesty and fairness are essential in our daily interactions with all individuals and stakeholders.

Responsibility – We value actions that are ethically, environmentally and socially responsible.

Teamwork – We promote safety and health, cooperation and openness in a supportive work environment.

Competence – We encourage and support innovation, continual improvement and learning, and the sharing of our knowledge and experiences.

Accountability – We accept responsibility for our individual and collective actions and performance.

Positive Attitude – We value enthusiasm and pride in our work.

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Head Office

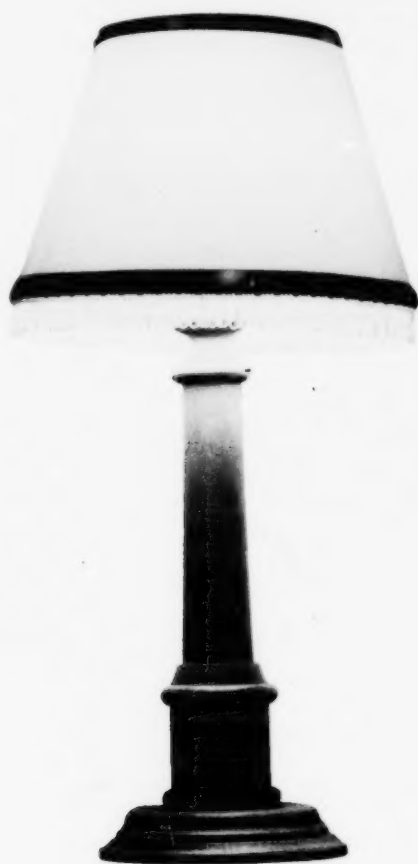
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This paper contains 50% recycled content including 15% post consumer waste. It is acid free and chlorine free.

Hydro generates and transmits over
80 per cent of the province's electrical energy
through a reliable and cost-effective system.

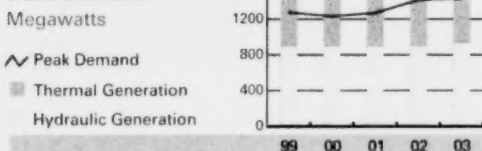


We shed light on thousands
of bedtime stories every night.

Highlights

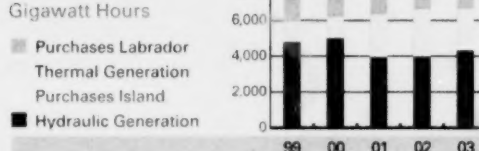
Island Interconnected Systems

Gross Generating Capacity and Peak Demand



Interconnected Systems

Gross Energy Generated and Purchased



From the President

Last summer North America watched as a blackout rolled through the eastern seaboard and central Canada crippling business and transportation, causing tremendous financial and economic impact. As a result, there has been considerable scrutiny of electrical systems throughout North America and a heightened awareness of the vulnerabilities present in any electrical system. In Newfoundland and Labrador we are isolated from the North American grid. It did lead us, however, to examine our systems and their inherent strengths and limitations.

BALANCING COSTS AND RELIABILITY

The cost of electricity and the reliability of supply are two of the most important issues for electrical consumers. Newfoundland and Labrador Hydro ("Hydro"), like all electrical utilities, is constantly challenged to find the appropriate balance between these competing interests. While there are unique issues facing the differing systems we operate and maintain, the governing factors of cost and reliability are constant.

Capital investments and operational improvements are always strategically directed at improving reliability. While we have statistical improvements in our distribution

systems' performance, there are issues that we intend to address to ensure an improvement in the quality and reliability of electricity, particularly on the Great Northern Peninsula and in coastal Labrador communities.

FOCUSING ON CUSTOMERS

Our customers – industrial, utility, commercial and residential – are key stakeholders in our business. As part of our strategic planning, we are focused on meeting their expectations and building better relationships with all our valued customers. Essential to those relationships is the building of trust, and confidence that Hydro is meeting their requirements in a cost-effective and efficient manner. It is also important that we have a shared understanding of the system limitations and the challenges that must be overcome in the future.

POSITIVE FINANCIAL RESULTS

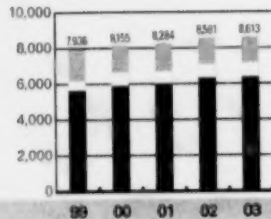
Financial results for Hydro in 2003 were better than anticipated. Despite a loss of \$2.6 million in our regulated activity, Hydro's net income for 2003 was \$44 million, before the write-down of unusual items as outlined in the financial statements and Management's

Highlights

Interconnected Systems Energy Sales

Gigawatt Hours

■ Labrador Export
■ Labrador
■ Island



"The cost of electricity and the reliability of supply are two of the most important issues for electrical consumers. Hydro, like all electrical utilities, is constantly challenged to find the appropriate balance between these competing interests."

— William Wells

From the President

Discussion and Analysis. The implementation of new rates approved by the Board of Commissioners of Public Utilities ("PUB") effective September 1, 2002, did not reflect the additional costs for new sources of generation required to meet system requirements that were incurred in 2003. Additional power purchases of \$10.3 million and costs of the Granite Canal Hydroelectric Generating Station were absorbed by Hydro and will continue to be absorbed until the PUB approves new rates in mid-2004 to allow those costs to be incorporated into rates.

COMPETITIVE RATES MAINTAINED AS NEW SOURCES OF GENERATION BROUGHT ON STREAM

Two rate hearings in the span of two years has been a major challenge for Hydro. Following 10 years of no rate increases, we have had to deal with many issues before the PUB including volatile fuel prices and the cost of new sources of generation to meet system requirements. From our customers' perspective, it has meant significant increases in rates.

Despite the proposed increases, rates will remain competitive with other Atlantic Provinces. Looking forward, there are no increases forecast in capacity



President and CEO William E. Wells

and energy on the Island Interconnected System until 2010. With fuel costs in rates more reflective of market price, we expect that our customers will see reasonable rate stability for the remainder of the decade.

From the President

A COMMITMENT TO THE ENVIRONMENT

The Hydro Group has made great strides in achieving its environmental objectives. At the end of this year, Hydro's Transmission and Rural Operations achieved all the requirements for ISO 14001 certification, completing the Hydro Group's objectives for corporate certification. The new Fish Habitat Compensation Facility, constructed in conjunction with the development at Granite Canal has set the benchmark for such projects across the country. A Continuous Emissions Monitoring System has been installed at the Holyrood Thermal Plant to assist in environmental monitoring and unit efficiency. The plant hosted over 200 members of the public to its fifth annual Open House during Environment Week. More details of our environmental achievements will be released in June 2004 in our fourth annual Environmental Performance Report.

POSITIVE PERFORMANCE AT CHURCHILL FALLS

Churchill Falls (Labrador) Corporation's ("CF(L)Co.") financial situation continues to improve as we pay down the debt and absorb the 2001 price reduction in the power contract, to 2.54 mills per kilowatt-hour. Based on a reduction in long-term debt of \$152 million in the last three years, we are confident that the retirement of CF(L)Co.'s debt in 2010 is within our grasp.

The Guaranteed Winter Availability Contract provides the opportunity for increased revenues; approximately \$18 million in 2003, resulting from the dedicated commitment of employees to ensure that the additional capacity is available during the contract period each year.

In 2003, major upgrades to the Town Centre were completed – an investment of over \$6 million, and a new Youth Centre will open in 2004. We are committed to providing our employees and their families with a strong and viable northern community in which to live and work.

A MANDATE OF CONTINUOUS IMPROVEMENT

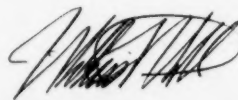
To ensure that we are fulfilling our mandate to provide least cost, reliable power, we are concentrating on the costs that are within Hydro's control. We will continue to work in a focused and structured way to review our business processes and leverage technology to add value and eliminate waste. We are steadily progressing toward a culture that is performance-based and thinking strategically with clearly defined goals and objectives. We have also instituted appropriate performance measures to track our progress. In short, we have a very tight rein on the management of our resources to ensure that our customers are getting the value they deserve.

THE COMMITMENT OF OUR PEOPLE

With all of these initiatives, the achievements gained were totally dependent on the commitment and capability of our employees. Our new wellness initiative is intended to enhance the well-being of our workers. The reduction of stress in the workplace, improved health and lower absentee rates will increase efficiencies and reduce accidents to ensure our targeted exemplary safety record is achieved.

I would like to note the retirement of David W. Reeves, Vice-President, Transmission and Rural Operations, as of July 31, 2003, following a 31-year career with the Hydro Group of Companies. I extend my best wishes to Dave for a healthy and well-deserved retirement.

I would also like to thank the Board of Directors of Hydro and CF(L)Co. for their support and assistance throughout the year. On behalf of Board Members and Executive Management, I express our gratitude to all employees of the Hydro Group for their contribution throughout the year.



William E. Wells
President and Chief Executive Officer

Directly and indirectly, Hydro provides energy to more than 250,000 electrical consumers in Newfoundland and Labrador.



That's up to a million pieces of toast that we help make every morning.

2003 In Review

ABOUT NEWFOUNDLAND AND LABRADOR HYDRO

Newfoundland and Labrador Hydro ("Hydro") is a Crown Corporation, owned by the Province of Newfoundland and Labrador. With a dedicated workforce of 1190 full-time equivalents, including Churchill Falls (Labrador) Corporation ("CF(L)Co."), Hydro generates, transmits and distributes electrical power and energy to utility, industrial and residential customers throughout the Province.

Founded in 1954 as the Newfoundland Power Commission, with a mandate to promote rural electrification, Hydro was established as a Crown Corporation in 1975 and is currently governed by the Hydro Corporation Act and the Electrical Power Control Act. Hydro has a mandate to deliver reliable, least cost energy to the residents and industry in Newfoundland and Labrador.

Hydro is the parent company of the Hydro Group of Companies ("Hydro Group") comprised of Newfoundland and Labrador Hydro, Churchill Falls (Labrador) Corporation Limited, Lower Churchill Development Corporation Limited ("LCDC"), Gull Island Power Company Limited ("GIPCo."), and Twin Falls Power Corporation Limited ("Twin Falls").

The Hydro Group's installed generating capacity is the fourth largest of all utility companies in Canada. Our power generating assets include 10 operating hydroelectric plants, one oil-fired plant, four gas turbines, 28 diesel plants and the Churchill Falls Hydroelectric Generating Station, the largest underground

powerhouse in the world with a rated capacity of 5,428 megawatts ("MW") of power. Hydro also maintains over 4,700 km of transmission lines and over 3,600 km of lower voltage distribution lines.

Every year, Hydro generates over 80 per cent of the electrical energy consumed by Newfoundlanders and Labradorians. We are an integral part of the Province's electrical system. Hydro also distributes power directly to 35,000 customers in rural Newfoundland and Labrador, which represents about 15 per cent of the Province's electrical consumers. The challenge of providing power to rural, and often remote, communities that experience challenging weather conditions cannot be overstated. It is a balancing act of cost and reliability to meet the expectations of our customers. We continue to strive for operating efficiencies while providing quality service to our customers and making the right strategic investments to maximize performance.

Hydro engaged in a number of important initiatives and achieved significant milestones in 2003. From a year of record sales, another multi-faceted rate hearing, to the commissioning of the Granite Canal Hydroelectric Generating Station, the past year has certainly reflected the complexity of our operating environment. Despite the challenges, we are proud of our record of service and we will strive for continual improvement in all areas of our operation as we meet the energy needs of Newfoundland and Labrador.

OUR OPERATIONS – PROVIDING LEAST COST, RELIABLE ENERGY

- This is the third consecutive year of record energy sales, with a total energy supply of 7231 GWh, one per cent above 2002. On the Labrador Interconnected System record deliveries were 813 GWh, a 4.8 per cent increase over 2002. Growth in deliveries is a result of industrial sales in Labrador and sales to Newfoundland Power on the Island Interconnected System.
- The Holyrood Thermal Generating Station, an integral component of the Island Interconnected System, had a gross production of 2061 GWh in 2003, an 18 per cent reduction from 2002. Despite this decrease, the plant provided over 31 per cent of the Island Interconnected System's energy with increasingly efficient operations given the production levels. The plant burned over three million barrels of oil to meet the energy requirements at an average cost per barrel of \$37.35.
- The Board of Commissioners of Public Utilities ("PUB") issued an order with respect to the Rate Stabilization Plan ("RSP") in December 2003. There were two outstanding balances in the RSP at the end of 2003. These two balances will now be combined and will be recovered from customers over a four-year period starting in January 2004. This change is intended to lessen the impact on customers of the growing balance in the plan due to high fuel costs and a short recovery time.
- Hydro is proud to have completed the construction of the Granite Canal Hydroelectric Generating Station in 2003. This 40 MW facility, within the existing Bay D'Espoir reservoir system, will provide over 220 GWh of required energy for the Island Interconnected System. It is an excellent source of environmentally-friendly, cost-effective energy for the Island that will benefit Newfoundlanders for years to come.
- To help meet the demand for capacity and energy on the Island Interconnected System, Hydro began purchasing power from Corner Brook Pulp and Paper and the Exploits River Partnership. This provided an additional 47 MW of capacity and 237 GWh of energy. Additional requirements for capacity and energy for the Island Interconnected System are not forecast until 2010.
- The addition of new capacity to meet the requirements of the Island Interconnected System, as well as other factors, resulted in Hydro filing a General Rate Application with the PUB for the second time within two years. The application filed in May 2003 is expected to result in a decision by the PUB in the first half of 2004.

OUR PEOPLE – INVESTING IN OUR STRONGEST RESOURCE

- Our goal is to have the best possible safety record. Safety will always be a priority because of the nature of the business in which we work. In 2003, despite the slight increase in the All Injury Frequency Rate from 1.98 to 2.10, Hydro recorded one less injury than in 2002 and the Severity Rate declined from 24.90 to 18.30.
- Hydro continues to invest in training and development for our employees to ensure that they have the skills and training they need to serve Newfoundlanders and Labradorians. This past year over 700 Hydro employees took part in training and skills upgrading.
- Hydro launched a new wellness program for employees called Wellness Works in 2003. This program is intended to enhance the well-being of Hydro employees, increase productivity, lower employee benefit costs and increase employee satisfaction.

OUR PROVINCE AND OUR SYSTEM – INVESTING IN OUR FUTURE

- The Hydro Group's net income, before unusual items decreased by \$14 million, or 24 per cent, while there was a three per cent increase in revenue. Power purchases were the primary reason for this decrease coupled with no commensurate rate increase for regulated sales. Hydro experienced a \$2.6 million loss on regulated operations for the first time.
- The electrification of the Province began in earnest in the 1960s and there is a significant annual investment required in system upgrades to ensure reliability. Hydro invested over \$67 million in its systems and operations throughout the province this past year, including the completion of Granite Canal. Significant projects were focused on enhancement of system reliability, safety and efficiency.
- In December 2003, an upgrade of the cross-island telecommunications network was completed. As part of the overall program to improve system protection, it will ensure the reliable transmission of system data between the generating and terminal stations and the Energy Control Centre.
- Noteworthy improvements were completed on rural distribution systems in Little Bay, St. Anthony, Bay D'Espoir, Bottom Waters and South Brook.
- Upgrades of the transmission systems near Stephenville and Sunnyside were completed; including the replacement and upgrades of equipment at terminals to enhance system performance and protection.

OUR ENVIRONMENT – MANAGING OUR RESOURCES

- Hydro's Transmission and Rural Operations Division met all the requirements for ISO 14001 certification in 2003. All Hydro Environmental Management Systems ("EMS") will now be registered. This is a significant accomplishment for all employees and reflects our commitment to responsible environmental management.
- As the Province's demand for energy increases, Hydro is committed to the responsible use of resources. In 2003, we launched our energy conservation program "Hydrowise". Hydrowise is an education initiative aimed at raising awareness about energy conservation and assisting electrical consumers to manage their energy use.
- As part of its continuing commitment to the environment, and in support of our environmental management system, the development at Granite Canal included the construction of a 45,000 m² Fish Habitat Compensation Facility. This facility provides spawning and rearing habitat for landlocked salmon and brook trout and included a number of innovative features in its construction and design.
- Hydro invested over \$1.5 million at its Holyrood Thermal Generating Station in Continuous Emissions Monitoring and upgraded Ambient Air Monitoring Systems. These investments will allow the plant to address environmental and efficiency concerns in a more effective and timely manner.
- Hydro continues to work with its Community Liaison Committee in Holyrood to ensure that a high level of communication is maintained between the plant and the surrounding communities. The committee met six times in 2003 to review operational and environmental information.

All Newfoundland and Labrador Hydro
Environmental Management Systems are ISO
14001 certified and registered. We're committed
to excellence in environmental management.



Whenever you flick the switch you can be sure
the electricity you use is produced according
to high environmental standards.

Management's Discussion and Analysis

Management's Discussion and Analysis highlights the primary factors that have an impact on the financial results and operations of the Corporation. It should be read in conjunction with the audited financial statements and the accompanying notes.

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FINANCIAL OVERVIEW

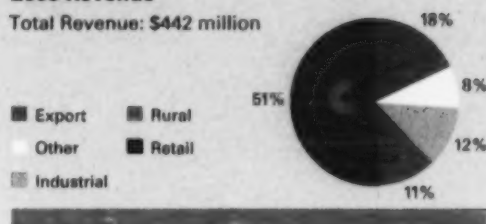
In 2003, Hydro experienced a net loss of \$74.6 million on a consolidated basis. This loss is primarily the result of Management's review of the carrying balances for project costs and capital studies related to future hydroelectric development in Labrador. As Hydro has been unable to conclude development plans at this time, the decision has been made to write-down project costs in GIPCo. by \$96.3 million, capital studies in LCDC by \$25 million and construction in progress by \$9.6 million. Although the net impact of these unusual write-downs on Hydro's income statement is a reduction in net income of \$118.6 million, the project costs and capital studies were fully funded by the shareholder in prior years through the provision of contributed capital.

Net income for 2003, before unusual write-downs, was \$44 million, a decrease of \$14.0 million compared to 2002. Income was down 24% mainly due to an increase in purchased power costs. Debt levels rose in 2003 to finance a portion of capital expenditures as well as fuel costs deferred in the Rate Stabilization Plan ("RSP").

The Hydro Group has a workforce of approximately 1,190 full-time equivalents, a reduction of 2.5% compared to 2002.

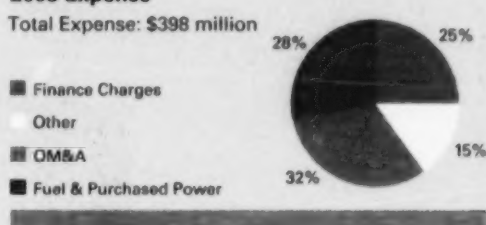
2003 Revenue

Total Revenue: \$442 million



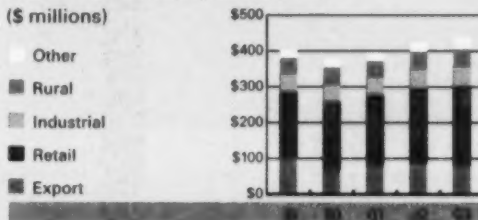
2003 Expense

Total Expense: \$398 million



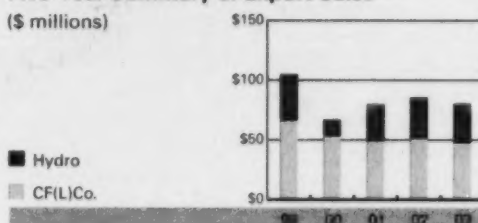
Five-Year Summary of Revenue

(\$ millions)



Five-Year Summary of Export Sales

(\$ millions)



COMPOSITION OF REVENUE AND EXPENSE

Hydro's revenue consists of sales of electricity to several large industrial customers in the Province and over 35,000 residential and commercial customers in rural Newfoundland and Labrador. Hydro also sells energy to Newfoundland Power, an investor-owned utility that distributes electrical power to the balance of the population

Management's Discussion and Analysis

on the island portion of the Province. Export sales consist of power generated at Churchill Falls and sold to Hydro-Québec. The majority of these sales are made directly by CF(L)Co. to Hydro-Québec at rates set under a long-term power contract. The remainder is sold to Hydro-Québec by Hydro at market rates.

The Corporation's major expense categories consist of fuel and purchased power, operating, maintenance and administration, finance charges and depreciation.

NET INCOME

Hydro's consolidated net income before unusual items was \$44 million in 2003, a decrease of \$14.0 million from 2002. Over the past five years, Hydro has paid \$309 million in dividends to the Province.

REVENUE

Total revenue growth in 2003 was approximately 3%, mainly due to continued load growth for the utility customer, and the full year's effect of a general rate increase to regulated customers approved by the PUB effective September 2002. Also contributing to higher revenue was additional compensation from the Guaranteed Winter Availability Contract between CF(L)Co. and Hydro-Québec.

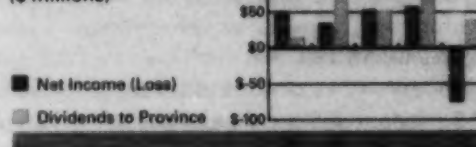
EXPENSES

Total expenses for 2003 were 8% higher than 2002 primarily due to a 16% increase, or \$11.4 million, in fuel costs and a 65% increase, or \$10.3 million, in purchased power costs. The increase in fuel costs is due to higher fuel prices in base rates. In 2003, 19¢ of every dollar of revenue went to pay for fuel costs compared to 17¢ in 2002. The increase in purchased power costs is due to more energy supplied by non-utility generators through new contracts with Corner Brook Pulp and Paper Limited and the Exploits River Hydro Partnership. These higher costs are not currently incorporated in electrical rates and are one of the reasons behind the filing of a general rate application during 2003.

Hydro pays various fees, taxes and other charges as indicated below:

<i>Fees, Taxes and Water Rentals (millions of dollars)</i>		2003	2002
Payment	Recipient		
Debt Guarantee Fee	Government of Newfoundland and Labrador	\$ 13.9	\$ 12.2
Payroll Tax	Government of Newfoundland and Labrador	1.2	1.1
Rentals and Royalties	Government of Newfoundland and Labrador	4.8	4.4
Municipal Taxes	Various Newfoundland and Labrador Municipalities	1.3	1.0
Total		\$ 21.2	\$ 18.7

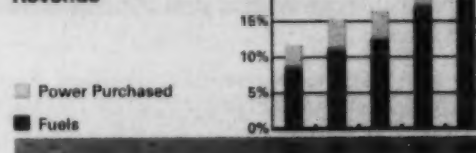
Five-Year Summary of Net Income (Loss) and Dividends to Province
(\$ millions)



Five-Year Summary of Expense
(\$ millions)



Five-Year Summary of Fuel and Purchased Power Costs as a Percentage of Revenue



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FINANCIAL OVERVIEW

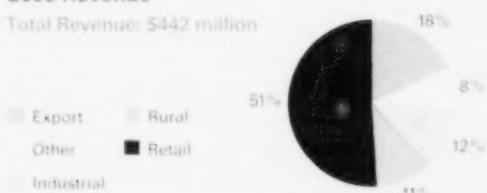
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Net income for 2003, before unusual write-downs, was \$44 million, a decrease of \$14.0 million compared to 2002, income was down 24% mainly due to an increase in purchased power costs. Debt levels rose in 2003 to finance a portion of capital expenditures as well as fuel costs deferred in the Rate Stabilization Plan ("RSP").

The Hydro Group has a workforce of approximately 5,100 full-time employees, a reduction of 2.5% compared to 2002.

2003 Revenue

Total Revenue: \$442 million

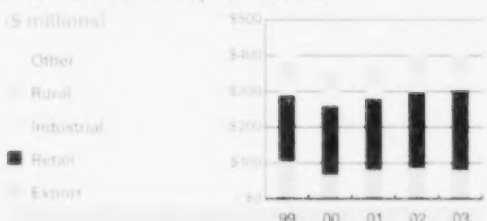


2003 Expense

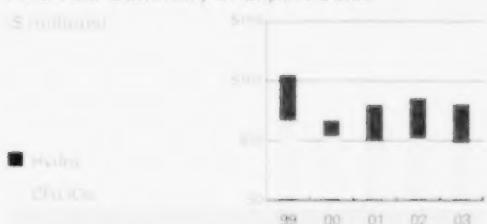
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Five-Year Summary of Revenue



Five-Year Summary of Export Sales



COMPOSITION OF REVENUE AND EXPENSE

Hydro's revenue consists of sales of electricity to several large industrial customers in the Province and over 25,000 residential and commercial customers in Newfoundland and Labrador. Hydro also sells energy to Newfoundland Power, an unincorporated utility that distributes electrical power to the balance of the province.

Management's Discussion and Analysis

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The Corporation's major expense categories consist of fuel and purchased power, operating, maintenance and administration, finance charges and depreciation.

NET INCOME

Hydro's consolidated net income before unusual items was \$44 million in 2003, a decrease of \$14.0 million from 2002. Over the past five years, Hydro has paid \$309 million in dividends to the Province.

REVENUE

Total revenue growth in 2003 was approximately 3%, mainly due to continued load growth for the utility customer, and the full year's effect of a general rate increase to regulated customers approved by the PUB effective September 2002. Also contributing to higher revenue was additional compensation from the Guaranteed Winter Availability Contract between CFI/Co. and Hydro-Quebec.

EXPENSES

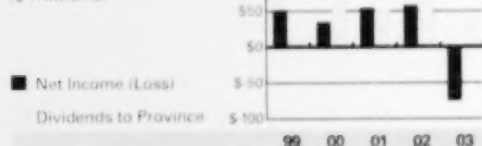
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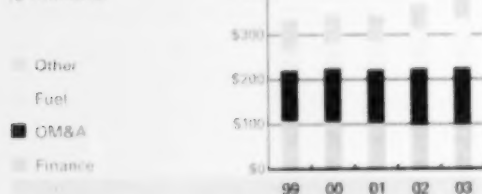
Five-Year Summary of Net Income (Loss) and Dividends to Province

(\$ millions)

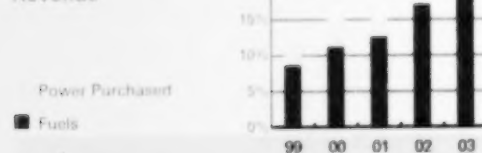


Five-Year Summary of Expense

(\$ millions)



Five-Year Summary of Fuel and Purchased Power Costs as a Percentage of Revenue



Management's Discussion and Analysis

OPERATIONS AND ADMINISTRATION

Overall, operations and administration expenses were consistent with 2002. In 2003, 28¢ out of every dollar in revenue went to pay for operations and administration. This is down from 29¢ in 2002.

FINANCE CHARGES

Interest expense, including the guarantee fee, increased by \$1.5 million to \$99.3 million, primarily due to higher outstanding debt balances, offset by lower interest rates.

CAPITAL EXPENDITURES

In order to ensure a safe, reliable and cost-effective supply of electricity for its customers, Hydro invested \$67 million in various capital projects during 2003, compared to \$110 million in 2002. Major capital investments in 2003 included:

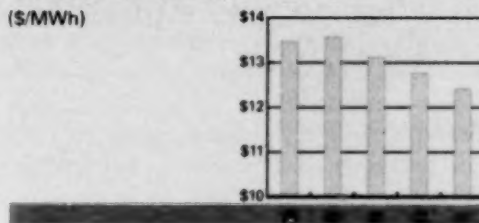
- \$26 million to complete 40 MW of hydraulic generation capacity at Granite Canal situated within the existing Bay D'Espoir Development, which was brought in service in June 2003.
- \$9 million for the interconnection of the microwave system between the east and west coast of the Island.
- \$6 million related to the improvements to the Distribution System along with additions for new customers.
- \$5 million related to the potential development of hydro projects in Labrador.
- \$4 million for improvements at the Holyrood Thermal Generating Station.

BORROWING AND DEBT

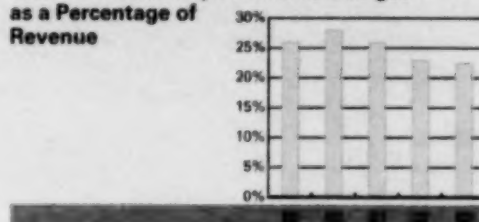
Hydro borrowed \$125 million of long-term Canadian denominated debt in 2003. Funds from these borrowings were used to finance a portion of the Corporation's capital expenditures, and the cost of fuel deferred in the RSP. The Corporation also reduced promissory notes outstanding by \$31.7 million. Additionally, \$19.2 million was invested in sinking funds.

Hydro's net debt increased to \$1,558 million at December 31, 2003, from \$1,538 million at December 31, 2002.

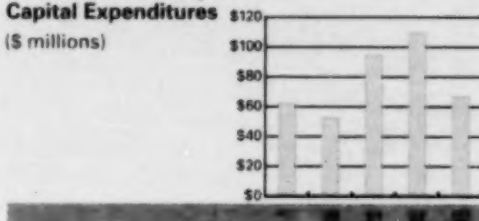
Controllable Unit Cost
(\$/MWh)



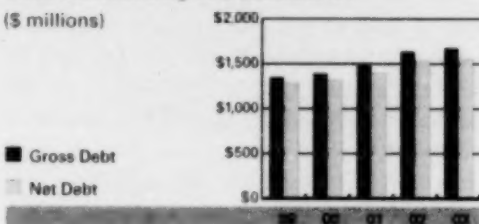
Five-Year Summary of Finance Charges as a Percentage of Revenue



Five-Year Summary of Capital Expenditures
(\$ millions)



Debt Outstanding at December 31
(\$ millions)



PERFORMANCE INDICATORS

Hydro has a well developed strategic planning process to provide long-term direction, including the identification of corporate strategic issues and objectives. One of the stated objectives is: "To optimize corporate performance". Several key indicators of corporate performance are relied upon to measure progress in this regard. The financial indicators reflect Hydro's operating results only, exclusive of subsidiary activity.

Return on equity and the interest coverage ratio decreased from 2002, primarily due to a lower net income arising from higher purchased power costs which are not reflected in rates. This, coupled with increased borrowing required to fund the capital program and growing RSP balances, caused the debt to capital percentage to increase during 2003 as well. There was an improvement in unit cost performance in 2003 due to an increase in energy delivered and a decrease in controllable costs.

Financial Performance Indicators (Hydro only)	2003	2002	2001
Debt to Capital (%)	86	85	79
Return on Equity (%)	8.6	15.9	13.5
Interest Coverage Ratio	1.15	1.37	1.38
Controllable Unit Cost (\$/MWh)	12.42	12.77	13.12
Non-Financial Performance Indicators	2003	2002	2001
Generated Energy (GWh)	37,317	39,421	36,496
SAIFI - Transmission	2.59	1.72	1.43
SAIFI - Distribution	7.86	9.44	7.47
SAIDI - Transmission (minutes)	222.34	106.72	44.00
SAIDI - Distribution (hours)	11.90	13.63	10.17
All Injury Frequency Rate	2.10	1.98	2.17
Customer Satisfaction Index	7.9	8.1	7.9

DESCRIPTION OF PERFORMANCE INDICATORS

RETURN ON EQUITY - Net Income/Average Equity.

DEBT TO CAPITAL - Year-end debt balance expressed as a percentage of the total corporate financing structure.

INTEREST COVERAGE RATIO - The extent to which income before financing charges is able to cover the corporation's interest obligations.

SYSTEM AVERAGE INTERRUPTION FREQUENCY INDEX (SAIFI) - Total number of sustained outages/total number of delivery points or customers. An outage is sustained if over one minute in duration. For transmission, denominator is delivery points; for distribution it is customers. This is used to track the overall performance of Hydro's transmission and distribution system.

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GENERATED ENERGY (GWH) - The volume of electricity that was generated from Hydro's generating facilities.

ALL INJURY FREQUENCY RATE - (# of disabling injuries + # of medical aid injuries) * 200,000 / hours worked. It measures the frequency with which injuries occur.

CONTROLLABLE UNIT COST - Controllable Corporate Operating, Maintenance and Administrative Cost/energy deliveries (MWh).

CUSTOMER SATISFACTION INDEX - The weighted average of satisfaction ratings of the service attributes, based on annual rural residential customer survey.

Management's Discussion and Analysis

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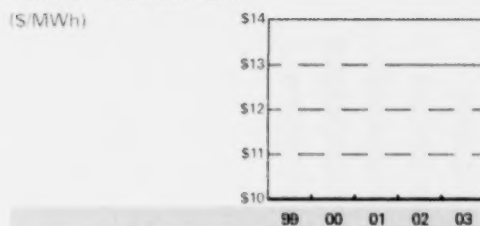
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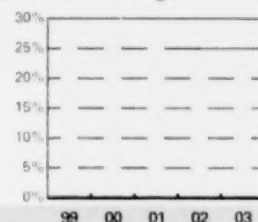
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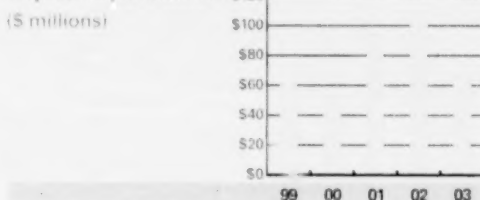
Controllable Unit Cost



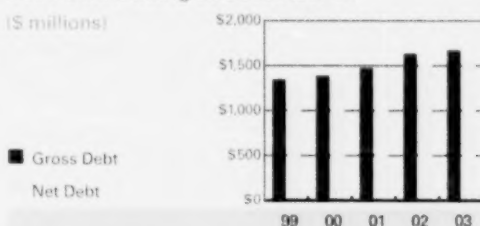
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Debt Outstanding at December 31



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Management's Discussion and Analysis

HYDRO SUBSIDIARIES

Hydro has one wholly owned subsidiary, GIPCo., as well as a 51% interest in LCDC and a 65.8% interest in CF(L)Co. CF(L)Co. is accounted for as a joint venture and therefore only Hydro's proportionate share of its financial statement items appears below.

REGULATION

In May 2003, Hydro filed a general rate application with the Board of Commissioners of Public Utilities ("PUB") primarily seeking to recover costs of new power purchase contracts as well as the costs of the Granite Canal Hydroelectric project which came on-stream in mid-2003. Other matters were also addressed in the hearing including corporate financial targets, rural rate setting, the rural deficit and fuel

costs. Information was also presented to the PUB on a demand and energy rate structure for Newfoundland Power as a potential replacement for the current rate form which is based solely on energy sales. A number of issues were settled during a mediation process, introduced for the first time in a Hydro rate hearing. Additionally, the parties were able to negotiate a revised structure for the rate stabilization plan, which has been approved by the PUB. Important issues remain to be ruled on by the PUB, including Hydro's application for a market-based rate of return on equity.

The hearing into Hydro's rate application commenced before the PUB in September and final legal arguments concluded in January 2004. It is anticipated that the PUB report will be issued in order that new rates can become effective during the second quarter.

Net Income

	Hydro (Unconsolidated)	CF(L)Co.	GIPCo.	LCDC	Eliminating Entries	Hydro (Consolidated)
<i>(millions of dollars)</i>						
						2003
Revenue	\$ 377.3	\$ 65.6	\$ -	\$ -	\$ (1.4)	\$ 441.5
Expenses	349.6	48.4	-	-	(0.5)	397.5
Write-down of assets	22.3	-	96.3	25.0	(25.0)	118.6
Net Income (loss)	\$ 5.4	\$ 17.2	\$ (96.3)	\$ (25.0)	\$ 24.1	\$ (74.6)

Balance Sheet

<i>(millions of dollars)</i>						
						2003
Total Assets	\$ 2,110.9	\$ 372.0	\$ 3.7	\$ 5.2	\$ (260.5)	\$ 2,231.3
Liabilities	\$ 1,636.7	\$ 118.5	\$ -	\$ -	\$ (1.8)	\$ 1,753.4
Equity	474.2	253.5	3.7	5.2	(258.7)	477.9
Total Liabilities and Equity	\$ 2,110.9	\$ 372.0	\$ 3.7	\$ 5.2	\$ (260.5)	\$ 2,231.3

OUTLOOK FOR 2004

Earnings are expected to be higher in 2004 due to a projected increase in rates effective in the 2nd quarter of the year. Also, the total outstanding balances owing to Hydro from customers primarily related to deferred fuel charges in the RSP is forecast to decline to \$140 million by the end of 2004.

RATE STABILIZATION PLAN ("RSP")

Prior to September 2002, the price of no. 6 fuel in the base rates to be charged to consumers was \$12.50 per barrel. As fuel prices rose the difference between the cost of fuel consumed and the cost upon which rates were set accumulated in the RSP, resulting in a balance owing to Hydro from its customers of \$105.8 million at the end of August 2002, at which point, this balance was frozen and is to be recovered over a five-year period which commenced in 2003. As of December 31, 2003, \$94.6 million remains to be recovered.

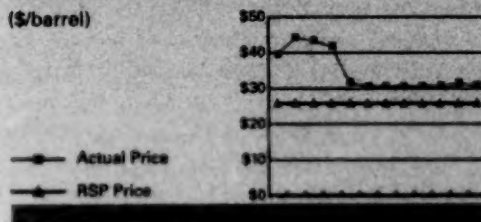
In September 2002, the price of no. 6 fuel was reset to \$25.91 per barrel, which was the forecast price for 2002 at that time. However, during 2002 the average price per barrel consumed climbed to \$36 by year-end and continued to climb until it reached \$44 in February 2003 and then dropped to \$31 in May where it stayed through the remainder of the year. As at December 31, 2003, an additional amount of \$61.1 million owing to Hydro from its customers had accumulated in the RSP. This was to be recovered over a two-year period starting in 2004. However, the PUB has approved a negotiated proposal for restructuring the RSP, an element of which is that this balance be consolidated with the frozen August 2002 plan balance and recovered over the next four years.

Based on a current forecast fuel price of \$29.05 per barrel, Hydro is projecting a new RSP balance of \$5.2 million to accumulate by year-end 2004. This balance will be recovered in 2005, with the exception of the hydraulic variation, which will be recovered at a rate of 25% annually. Additionally, a fuel rider will be calculated based on the 2005 forecast fuel price and will be added to or subtracted from the electrical rates that would otherwise be in effect.

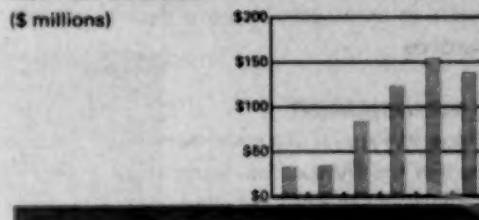
HUMAN RESOURCES

Human resource management including recruitment and retention of a qualified workforce, compensation, training and development and succession planning will continue to be key to Hydro's continued success as 25% of its workforce will be eligible for retirement over the next five years. Fostering cooperative relations with Hydro's bargaining units is also key for future success.

2003 no.6 Fuel Price (\$/barrel)



RSP Plan Balances (\$ millions)



* 2004 figure is estimated

INFRASTRUCTURE AND TECHNOLOGY

Hydro's generation and transmission facilities were constructed primarily during the 1960s to the 1970s. Many facilities are now approaching 40 years of age and require increasing amounts of maintenance to maintain acceptable levels of reliability. Significant capital investment is also required each year to ensure that facilities and equipment are upgraded, replaced or installed to meet the increasing demand for electrical energy from our customers.

New developments in generation, transmission and distribution, and metering technologies will affect the way the Corporation operates in the future. Renewable energy sources such as wind may eventually also offer potential for cost-effective generation of power.

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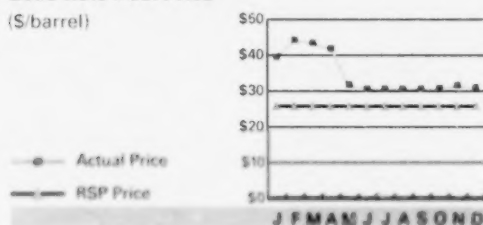
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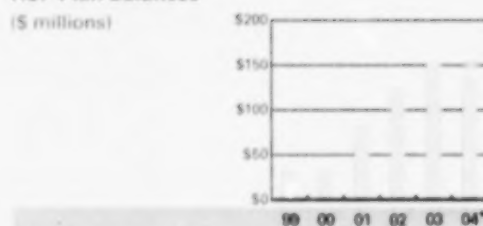
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Management's Discussion and Analysis

ENVIRONMENT

Environmental issues are a significant consideration for electric utilities. In an effort to continue to provide reliable service while realizing its responsibility to the environment, Hydro adopted the ISO 14001 Environmental Management System ("EMS") standard in 1997 and has successfully implemented it throughout our operation. ISO 14001 is the foundation of the Canadian Electrical Industry's Environmental Commitment and Responsibility Program. This international standard of environmental management requires organizations to make a commitment to comply with legal and other requirements, prevent pollution and work to continually improve their environmental performance.

RISK MANAGEMENT

Hydro operates in an environment that entails various forms of business and financial risk. Some of these risks afford Hydro added opportunities, but others expose the company to risk and uncertainty that may lead to adverse impacts on our financial position and corporate objectives.

The Corporation is subject to business risks associated with damage of its assets, interruption of service and liability claims. The Hydro Group recognizes these exposures and employs a variety of risk control and financing techniques. Regular maintenance and inspection of assets, redundancy of critical facilities and other loss prevention solutions are utilized to eliminate and/or reduce these exposures. The Corporation purchases an insurance program to finance certain potential losses. This program is reviewed at least annually to ensure the appropriate coverages are purchased at the most reasonable cost. In 2003, a new three-year insurance policy was negotiated to protect our major assets at a lower rate than the expiring coverage. Self-insurance, insurance deductibles and reviews of exposures are also used to reduce the cost of risk.

As an electrical utility, the working environment for the majority of Hydro's employees is hazardous and unforgiving. To ensure that its employees are protected from accidents and industrial illness, Hydro has established a comprehensive Safety and Health Program. The program draws on industry best practices, state of the art personal protective equipment, task analysis and standardized work methods, and engineered solutions to provide employees with a safe environment in which to work. The safety and well-being of its workforce and the general public is a priority for Hydro.

Financial risks include changes in interest rates and fluctuation in foreign currency exchange rates. The Corporation manages its exposure to interest rates through an ongoing benchmarking against key indices, having due consideration for the company's relative risk profile. This approach has been instrumental in allowing the company to benefit from the recent lows in interest rate levels. The company mitigates its foreign exchange exposure through a diversified approach that includes the periodic use of forward currency contracts.

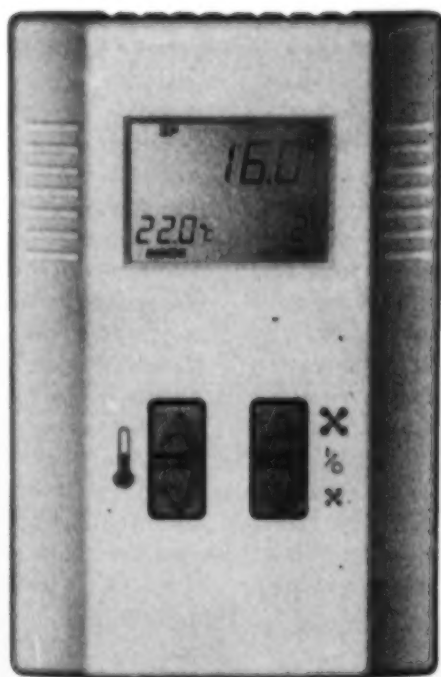
BUSINESS PROCESS IMPROVEMENT

In 2002, Hydro developed a structured program to review core business processes, as part of an overall continuous improvement program. The program is governed by process metrics and monitored by corporate key performance indicators.

A senior management improvement team, headed by an Executive Director, and various process improvement teams, continue to review and redesign corporate core processes.

Hydro's objective as part of its strategic plan focused on performance is to eliminate non-value added work in its business processes and leverage the functionality of its integrated software suite to support process improvement and deliver better business information, effective work management tools, effective budgeting tools and process metrics.

Hydro wants to make sure that you get the most out of your energy usage. Our Hydrowise program helps consumers to make wise choices and reduce their energy consumption.



Turn your thermostats to 16°C at night and whenever you leave the house for more than 8 hours. Turning back the heat can save 2% for every reduced degree.

Management Report

The accompanying consolidated financial statements of Newfoundland and Labrador Hydro and all information in the Annual Report are the responsibility of Management and have been approved by the Board of Directors.

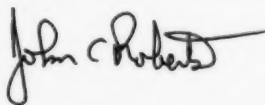
The financial statements have been prepared by Management in accordance with Canadian generally accepted accounting principles, applied on a basis consistent with that of the preceding year. The preparation of financial statements necessarily involves the use of estimates based on Management's judgement, particularly when transactions affecting the current accounting period cannot be finalized with certainty until future periods. The financial statements have been properly prepared within reasonable limits of materiality and in light of information available up to February 6, 2004. Financial information presented elsewhere in the Annual Report is consistent with that in the financial statements.

Management maintains a system of internal controls designed to provide reasonable assurance that assets are safeguarded and that reliable financial information is available on a timely basis. The system includes formal policies and procedures and an organizational

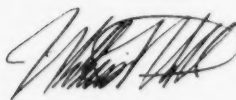
structure that provides for the appropriate delegation of authority and segregation of responsibilities. An internal audit department independently evaluates the effectiveness of these internal controls on an ongoing basis, and reports its findings to Management and to the Audit Committee of the Board of Directors.

The responsibility of the external auditor, Deloitte & Touche LLP, is to express an independent, professional opinion on whether the financial statements are fairly presented in accordance with Canadian generally accepted accounting principles. The Auditors' Report outlines the scope of their examination and their opinion.

The Board of Directors, through its Audit Committee, is responsible for ensuring that Management fulfils its responsibility for financial reporting and internal controls. The Audit Committee meets regularly with Management, the internal auditors and the external auditors to satisfy itself that each group has properly discharged its respective responsibility and to review the financial statements before recommending approval by the Board of Directors. The internal and external auditors have full and free access to the Audit Committee, with and without the presence of Management.



John C. Roberts
Vice-President, Finance and Chief Financial Officer



William E. Wells
President and Chief Executive Officer

Auditors' Report

To the **Lieutenant-Governor in Council**
Province of Newfoundland and Labrador

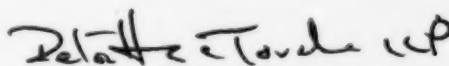
We have audited the consolidated balance sheet of **Newfoundland and Labrador Hydro** as at December 31, 2003, and the consolidated statements of loss and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the

accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2003, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by The Hydro Corporation Act, we report that, in our opinion, these principles have been applied on a basis consistent with that of the preceding year.

The financial statements as at December 31, 2002, and for the year then ended were audited by other auditors who expressed an opinion without reservation on those statements in their report dated February 14, 2003.



Chartered Accountants
St. John's, Newfoundland and Labrador
Canada
February 6, 2004

Consolidated Balance Sheet

As at December 31 (millions of dollars)

	2003	2002
ASSETS		
Capital assets (Note 2)		
Capital assets in service	2,632.5	2,604.7
Less contributions in aid of construction	106.5	108.9
	2,526.0	2,495.8
Less accumulated depreciation	780.5	745.7
	1,745.5	1,750.1
Construction in progress	47.5	154.6
	1,793.0	1,904.7
Current assets		
Cash and cash equivalents	0.1	0.2
Accounts receivable	56.5	62.0
Current portion of long-term receivables (Note 3)	35.5	27.5
Fuel and supplies at average cost	48.5	48.0
Prepaid expenses	2.5	2.5
	143.1	140.2
Long-term receivables (Note 3)	130.7	110.6
Sinking funds (Note 9)	70.1	48.7
Investments (Note 4)	5.2	5.2
Rate stabilization plan	-	20.5
Deferred charges (Note 6)	89.2	89.4
	2,231.3	2,319.3

See accompanying notes

Consolidated Balance Sheet

As at December 31 (millions of dollars)

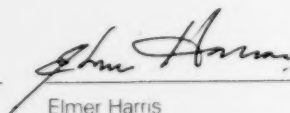
	2003	2002
LIABILITIES AND SHAREHOLDER'S EQUITY		
Long-term debt (Note 7)	1,447.8	1,354.9
Current liabilities		
Bank indebtedness	6.7	4.4
Short-term borrowing	1.8	3.3
Accounts payable and accrued liabilities	51.6	59.3
Accrued interest	30.5	27.7
Long-term debt due within one year (Note 7)	30.7	50.2
Promissory notes (Note 7)	149.8	181.5
	271.1	326.4
Employee future benefits (Note 8)	32.0	29.6
Non-controlling interest in LCDC (Note 2)	2.5	14.8
Shareholder's equity		
Share capital		
Common shares of par value of \$1 each		
Authorized 25,000,000 shares; issued 22,503,942 shares	22.5	22.5
Contributed capital (Notes 2 and 4)		
Lower Churchill Development	15.4	15.4
Muskrat Falls Project	2.2	2.2
Gull Island Project	100.0	100.0
Retained earnings	337.8	453.5
	477.9	593.6
Commitments and contingencies (Note 11)		
	2,231.3	2,319.3

See accompanying notes

On behalf of the Board:



Paul Dicks
Director



Elmer Harris
Director

Consolidated Statement of Loss and Retained Earnings

<i>Year ended December 31 (millions of dollars)</i>	2003	2002
Revenue		
Energy sales	407.8	399.6
Recovery of costs in rate stabilization plan	16.7	14.0
Guaranteed winter availability	11.9	9.5
Rentals and royalties	0.3	0.3
Other	4.8	4.2
	441.5	427.6
Expenses		
Operations and administration	125.8	125.8
Fuels	84.6	73.2
Amortization of costs in rate stabilization plan	16.7	14.0
Power purchased	26.1	15.8
Depreciation	45.0	43.0
Interest (Note 10)	99.3	97.8
	397.5	369.6
Net income before unusual items	44.0	58.0
Unusual items (Note 2)		
Write-down of capital assets	(130.9)	-
Less non-controlling interest	12.3	-
	(118.6)	-
Net (loss) income	(74.6)	58.0
Retained earnings, beginning of year	453.5	523.5
	378.9	581.5
Dividends	41.1	128.0
Retained earnings, end of year	337.8	453.5

See accompanying notes

Consolidated Statement of Cash Flows

<i>Year ended December 31 (millions of dollars)</i>	2003	2002
Cash provided by (used in)		
Operating activities		
Net income (loss)	(74.6)	58.0
Adjusted for items not involving a cash flow		
Depreciation	45.0	43.0
Amortization of deferred charges	4.1	4.0
Rate stabilization plan	20.5	64.5
Other	3.4	-
Foreign exchange gain	(1.0)	(0.1)
Write-down of capital assets (net of non-controlling interest)	118.6	-
	116.0	169.4
Change in non-cash balances related to operations		
Accounts receivable	5.5	(5.6)
Fuel and supplies	(0.5)	(1.7)
Prepaid expenses	-	(0.5)
Accounts payable and accrued liabilities	(8.2)	11.8
Accrued interest	2.8	2.2
Employee future benefits	2.4	1.1
Long-term receivable	(49.6)	(104.8)
	68.4	71.9
Financing activities		
Long-term debt issued	125.0	250.0
Long-term debt retired	(36.8)	(138.1)
Foreign exchange loss recovered	5.2	8.5
Increase (decrease) in short-term borrowing	(1.5)	3.3
Increase (decrease) in promissory notes	(31.7)	43.5
Dividends	(41.1)	(128.0)
	19.1	39.2
Investing activities		
Net additions to capital assets	(67.3)	(109.7)
Decrease in short-term investments	-	4.0
Increase in sinking funds	(19.2)	(14.1)
Reductions (additions) to deferred charges	(3.9)	6.7
Change in accounts payable related to investing activities	0.5	(1.2)
	(89.9)	(114.3)
Net decrease in cash	(2.4)	(3.2)
Cash position, beginning of year	(4.2)	(1.0)
Cash position, end of year	(6.6)	(4.2)
Cash position is represented by		
Cash and cash equivalents	0.1	0.2
Bank indebtedness	(6.7)	(4.4)
	(6.6)	(4.2)
Supplementary disclosure of cash flow information		
Income taxes paid	0.2	0.2
Interest income received	0.6	1.7
Interest paid	109.6	104.1

See accompanying notes

Notes to Consolidated Financial Statements

Newfoundland and Labrador Hydro ("Hydro") is incorporated under a special act of the Legislature of the Province of Newfoundland and Labrador ("Province") as a Crown Corporation and its principal activity is the development, generation and sale of electric power. Hydro and its subsidiary and jointly controlled companies, other than Twin Falls Power Corporation Limited ("Twin Falls"), are exempt from paying income taxes under Section 149 (1)(d) of the Income Tax Act.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles.

Preparation of these consolidated financial statements requires the use of estimates and assumptions that affect the amounts reported and disclosed in these statements and related notes. Actual results may differ from these estimates.

Rates and Regulations

(Excluding Sales by Subsidiaries)

Hydro's earnings from its electrical sales to most customers within the Province are regulated on the basis of return on rate base. As well, Hydro's borrowing and capital expenditure programs are subject to review and approval by the Public Utilities Board ("PUB").

Rates charged rural customers do not recover the full costs of providing the service but Hydro recovers the resulting deficit from other customers.

Principles of Consolidation

The consolidated financial statements include the financial statements of Hydro and its subsidiary companies, Gull Island Power Company Limited ("GIPCo."), (100% owned) and Lower Churchill Development Corporation Limited ("LCDC"), (51% owned).

Effective June 18, 1999, Hydro, Churchill Falls (Labrador) Corporation Limited ("CF(L)Co.") and Hydro-Québec entered into a shareholders' agreement which provided, among other matters, that certain of the strategic operating, financing and investing policies of CF(L)Co. be subject to approval jointly by representatives of Hydro and Hydro-Québec. Although Hydro retains its 65.8% ownership interest, the agreement changed the nature of the relationship between Hydro and Hydro-Québec, with respect to CF(L)Co., from that of majority and minority shareholders, respectively, to that of joint venturers. Accordingly, Hydro has adopted the proportionate consolidation method of accounting for its interest in CF(L)Co. subsequent to the effective date of the shareholders' agreement.

CF(L)Co. is incorporated under the laws of Canada and has completed and commissioned a hydroelectric generating plant and related transmission facilities situated in Labrador which has a rated capacity of 5,428,000 kilowatts ("CF(L)Co. Project"). A power contract with Hydro-Québec, dated May 12, 1969 ("Power Contract") provides for the sale of substantially all the energy from the CF(L)Co. Project until 2041. CF(L)Co. receives certain benefits from Hydro-Québec, including significant revenues, under a guaranteed winter availability contract through 2041.

CF(L)Co. holds 33.33% of the equity share capital of Twin Falls Power Corporation Limited and is a party with other shareholders in a participation agreement which gives CF(L)Co. joint control of Twin Falls. This investment is accounted for by the proportionate consolidation method.

The cost of Hydro's investment in CF(L)Co. exceeded the equity in the book value of the net assets acquired by \$77.1 million. This amount is assigned to capital assets and is being amortized on a straight-line basis at the rate of 1.5% per annum. As at December 31, 2003, \$33.6 million (2002 - \$32.4 million) had been amortized.

Under the terms and conditions of the Churchill Falls (Labrador) Corporation (Lease) Act, 1961, CF(L)Co. must pay rentals and royalties to the Province annually.

A portion of Hydro's shareholding in CF(L)Co. is deposited in a voting trust pursuant to an agreement with Hydro-Québec.

GIPCo. is incorporated under the laws of Canada. Its objective was to develop the hydroelectric potential at Gull Island on the Lower Churchill River in Labrador, and construct a direct current transmission system from Labrador to the island of Newfoundland ("Gull Island Project"), (Note 4).

LCDC is incorporated under the laws of Newfoundland and Labrador and was established with the objective of developing all or part of the hydroelectric potential of the Lower Churchill River ("Lower Churchill Development"), (Note 4).

Twin Falls is incorporated under the laws of Canada and has developed a 225 MW hydroelectric generating plant on the Unknown River in Labrador. The plant has been inoperative since 1974.

Cash Equivalents and Short-Term Investments

Cash equivalents and short-term investments consist primarily of Canadian treasury bills and banker's acceptances. Those with original maturities at date of purchase of three months or less are classified as cash equivalents, whereas those with original maturities beyond three months and less than twelve months are classified as short-term investments. Both are stated at cost, which

Notes to Consolidated Financial Statements

approximates market value. As at December 31, 2003, and 2002, there were no cash equivalents or short-term investments outstanding.

Capital Assets and Depreciation

Expenditures for additions, improvements and renewals are capitalized and normal expenditures for maintenance and repairs are charged to operations.

Hydro, GIPCo. and LCDC

Construction in progress includes the costs incurred in preliminary feasibility studies, engineering and construction of new generation, transmission and distribution facilities. Interest is charged to construction in progress at rates equivalent to the weighted average cost of capital.

Hydro makes provision in its accounts for future removal and site restoration costs over the life of new assets, when such costs can be reasonably estimated and it is not expected that the asset will be replaced at the same location. For existing assets which are not expected to be replaced at the same location, net salvage costs are amortized after retirement. If an asset is expected to be replaced at the same location, net salvage costs are amortized over the life of the replacement asset.

Contributions in aid of construction are funds received from customers and governments toward the incurred cost of capital assets, or the fair value of assets contributed. Contributions are treated as a reduction to capital assets and the net capital assets are depreciated.

Depreciation is calculated on hydroelectric generating plant and on transmission plant in service on the sinking fund method using interest factors ranging from 5.25% to 15.79%. Depreciation on other plant in service is calculated on the straight-line method. These methods are designed to fully amortize the cost of the facilities, after deducting contributions in aid of construction, over their estimated service lives.

Estimated service lives of the major assets are as follows:

Generation Plant

Hydroelectric	50, 75 and 100 years
Thermal	25 and 30 years
Diesel	20 years

Transmission

Lines	40 and 50 years
Switching stations	40 years

Distribution System

Other	3 to 50 years
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CF(L)Co.

CF(L)Co. uses the group depreciation method for certain capital assets other than the generation plant, transmission and terminals and service facilities.

Depreciation is provided on a straight-line basis over the following estimated useful lives:

Generation Plant

Hydroelectric	67 years
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Transmission and Terminals

Service facilities	67 years
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Other

Other	5 to 100 years
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CF(L)Co. has made no provision in its accounts for future removal and site restoration costs as they cannot be estimated at this time.

Losses on other than normal retirements are charged to operations in the year incurred as adjustments to depreciation expense.

Debt Discount and Financing Expenses

These costs are amortized on a straight-line basis over the lives of the respective debt issues.

Rate Stabilization Plan

On January 1, 1986, Hydro, having received the concurrence of the PUB, implemented a Rate Stabilization Plan ("RSP") which primarily provides for the deferral of cost variances resulting from changes in fuel prices, levels of precipitation and load. Adjustments required in retail rates to cover the amortization of the balance in the plan do not require a reference to the PUB and are implemented on July 1 of each year. Similar adjustments required in industrial rates are implemented on January 1 of each year.

In 2002, the PUB ordered changes with respect to the recovery of the balance in the RSP, as well as for any future balances that may accumulate. The RSP balance as at August 31, 2002, has been converted to a long-term receivable and the balance outstanding at December 31, 2002, is to be recovered over a five-year period, which commenced in 2003 (Note 3). In 2003, the PUB further ordered that the RSP activity for the period September - December 2002 and all of 2003 be consolidated with the August 2002 balance. Any subsequent balances accumulating in the RSP are to be recovered in the following year, with the exception of hydraulic variation, which will be recovered at a rate of 25% of the outstanding balance at year-end.

Notes to Consolidated Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

Promissory Notes

Promissory Notes bear interest from 2.66% to 2.93% per annum (2002 - 2.80% to 3.29%) with carrying value approximating fair value due to their short-term nature.

Revenue Recognition

Revenue is recorded on the basis of power deliveries made.

Deferred revenue represents amounts billed under the Power Contract in excess of energy delivered. Amounts related to energy delivered in excess of the base amount, as defined by the Power Contract, are recorded as receivables. Differences between amounts related to energy delivered and the base amounts are determined annually and are subject to interest at 7% per annum (2002 - 7%).

Foreign Currency Translation

Foreign currency transactions are translated into their Canadian dollar equivalent as follows:

- (a) At the transaction date, each asset, liability, revenue or expense is translated using exchange rates in effect at that date.
- (b) At each balance sheet date monetary assets and liabilities are adjusted to reflect exchange rates in effect at that date.
 - (i) In the case of Hydro, foreign exchange losses related to long-term debt, including current portion, are subject to the rate setting process. The PUB has accepted the inclusion by Hydro of realized foreign exchange losses in rates charged to customers. Any such loss, net of any gain, not recovered due to the operation of the rate setting process is deferred to the time of the next rate hearing for inclusion in the new rates to be set at that time. This amortization is included in interest expense. Commencing in 2002, the PUB ordered Hydro's deferred foreign exchange losses, net of the \$10.0 million provision previously accumulated, be amortized over a forty-year period (Note 6).

- (ii) Under the provisions of the Power Contract CF(L)Co.'s exposure for a foreign exchange loss is limited. CF(L)Co. recovers a portion of the difference between actual foreign exchange rates prevailing at the settlement dates of its First Mortgage Bonds and a Weighted Average Exchange Rate as defined in the Power Contract. The portion of the unrealized foreign exchange loss which is recoverable on the settlement dates, is included in long-term receivables (Note 3).

Financial Instruments

From time to time, Hydro enters into interest rate swap agreements to manage interest rate risk. Net receipts or payments under the swap agreements are recorded as adjustments to interest expense.

Employee Future Benefits

Employees participate in the Province's Public Service Pension Plan, a multi-employer defined benefit plan. The employer's contributions are expensed as incurred.

Hydro provides group life insurance and health care benefits on a cost-shared basis to retired employees, in addition to a severance payment upon retirement. The expected cost of providing these other employee future benefits is accounted for on an accrual basis, and has been actuarially determined using the projected benefit method prorated on service and management's best estimate of salary escalation, retirement ages of employees, and expected health care costs. The excess of net cumulative actuarial gains and losses over 10% of the accrued benefit obligation are amortized over the expected average remaining service life of the employee group, which is approximately 12 years.

Notes to Consolidated Financial Statements

2. CAPITAL ASSETS

	Capital Assets in Service	Contributions in Aid of Construction	Accumulated Depreciation	Construction in Progress
<i>millions of dollars</i>	2003			
Generation Plant				
Hydroelectric	1,347.3	20.5	267.0	0.2
Thermal	227.0	-	175.7	-
Diesel	59.5	6.7	23.4	-
Transmission and Distribution	718.2	54.9	168.5	0.6
Service facilities	22.0	-	9.8	-
Project costs (Note 4)	-	-	-	-
Capital studies (Note 4)	-	-	-	-
Other	258.5	24.4	136.1	46.7
	2,632.5	106.5	780.5	47.5

<i>millions of dollars</i>	2002			
Generation Plant				
Hydroelectric	1,243.6	20.5	256.1	102.7
Thermal	223.5	-	173.3	0.2
Diesel	62.5	7.9	23.1	0.1
Transmission and Distribution	693.3	56.0	155.7	1.0
Service facilities	22.0	-	9.5	-
Project costs (Note 4)	96.4	-	-	-
Capital studies (Note 4)	25.0	-	-	-
Other	238.4	24.5	128.0	50.6
	2,604.7	108.9	745.7	154.6

Included in the above amounts are CF(L)Co. assets in service amounting to \$636.1 million (2002 - \$633.6 million) which are pledged as collateral for long-term debt.

Management has reviewed the carrying balance of its Capital Assets in Service and Construction in Progress for hydro-electric developments in Labrador. As Hydro has been unable to successfully conclude development plans at this time, it has decided to write-down project costs related

to GIPCo. by \$96.3 million, capital studies related to LCDC by \$25.0 million, and construction in progress by \$9.6 million, to its best estimate of the net recoverable amount. The write-down of capital studies also results in a reduction of \$12.3 million in the non-controlling interest in LCDC. The project costs in GIPCo. and capital studies in LCDC were funded by the shareholder in prior years through the provision of contributed capital.

Notes to Consolidated Financial Statements

3. LONG-TERM RECEIVABLES

<i>millions of dollars</i>	2003	2002
Rate Stabilization Plan		
Retail	114.8	76.3
Industrial	40.9	28.0
	155.7	104.3
Hydro-Québec		
Unrealized foreign exchange	9.5	31.1
Other	1.0	2.7
	10.5	33.8
Less current portion of long-term receivables	35.5	27.5
	130.7	110.6

The receivable arising from the RSP bears interest at the weighted average cost of capital which is approximately 7.2% and is to be recovered over a five-year period, which commenced in 2003.

The other long-term receivable from Hydro-Québec bears interest at 7% per annum and is receivable over a four year period which commenced in September 2000.

4. INVESTMENTS

<i>millions of dollars</i>	2003	2002
Lower Churchill Option	5.2	5.2

LCDC was incorporated in 1978 pursuant to the provisions of an agreement ("Principal Agreement"), between the Province and the Government of Canada. The Province and the Government of Canada own equity interests of 51% and 49% of LCDC, respectively. The Principal Agreement provides that future issues of Class A common shares shall preserve, as nearly as possible, this ratio of beneficial ownership. Hydro is the designate for the Province's shareholding in LCDC.

Upon agreement to continue with the Lower Churchill Development, GIPCo.'s assets and the hydroelectric development rights to the Lower Churchill River, ("Water Rights"), will be acquired by LCDC pursuant to the provisions of an agreement between LCDC and the Province, ("Option Agreement"). The purchase price in respect of GIPCo.'s assets will be a maximum of \$100.0 million less \$5.2 million representing the value assigned

to 520 Class A common shares of LCDC issued pursuant to the signing of the Option Agreement. As consideration for GIPCo.'s assets, LCDC will issue a 10% Convertible Demand Debenture in the amount of \$94.8 million. LCDC will issue 3,000 Class B common shares, without nominal or par value, to the Province in consideration of the Water Rights and the Province will transfer such shares to Hydro. The parties have agreed that the value of each Class B common share is \$10,000. The Option Agreement expires November 24, 2004.

Hydro holds 1,540 Class A common shares of LCDC which have a stated value of \$10,000 each. 520 shares were acquired in 1979 pursuant to signing of the Option Agreement and 510 shares were acquired in each of the years 1980 and 1981, by way of capital contributions from the Province.

Notes to Consolidated Financial Statements

5. JOINT VENTURE

The following amounts included in the consolidated financial statements represent Hydro's proportionate share of CF(L)Co.'s assets and liabilities at December 31, 2003, and

its proportionate interest in CF(L)Co.'s operations for the year ended December 31, 2003.

<i>millions of dollars</i>	2003	2002
Current assets	24.0	34.6
Long-term assets	347.9	371.7
Current liabilities	29.4	45.3
Long-term liabilities	84.0	113.9
Revenues	61.7	62.9
Expenses	48.5	49.0
Net income	13.2	13.9
Cash provided by (used in)		
Operating activities	34.1	25.4
Financing activities	(30.4)	(24.3)
Investing activities	(2.6)	1.6

6. DEFERRED CHARGES

<i>millions of dollars</i>	2003	2002
Debt discount, financing expenses and other	20.1	19.6
Accumulated amortization	12.9	14.3
	7.2	5.3
Foreign exchange losses realized	96.3	96.3
Accumulated provision	10.0	10.0
	86.3	86.3
Accumulated amortization	4.3	2.2
	82.0	84.1
Net deferred charges	89.2	89.4

Notes to Consolidated Financial Statements

7. LONG-TERM DEBT

	Hydro	CF(I)Co.	Total	Hydro	CF(I)Co.	Total
<i>millions of dollars</i>	2003			2002		
Summary of long-term debt						
Long-term debt	1,377.2	101.3	1,478.5	1,257.1	148.0	1,405.1
Less payments due within one year	13.4	17.3	30.7	16.1	34.1	50.2
	1,363.8	84.0	1,447.8	1,241.0	113.9	1,354.9

Required repayments of long-term debt and sinking fund requirements over the next five years will be as follows:

<i>millions of dollars</i>	2004	2005	2006	2007	2008
	30.7	29.3	228.3	20.9	213.7

The payments due within one year include sinking fund requirements of \$10.0 million (2002 - \$8.8 million).

Details of long-term debt are as follows:

Hydro

Series	Interest Rate %	Year of Issue	Year of Maturity		
<i>millions of dollars</i>				2003	2002
AC	5.05	2001	2006	200.0	200.0
AA	5.50	1998	2008	200.0	200.0
V	10.50	1989	2014	125.0	125.0 (a)
X	10.25	1992	2017	150.0	150.0 (a)
Y	8.40	1996	2026	300.0	300.0 (a)
AB	6.65	2001	2031	300.0	300.0 (a)
AD	5.70	2003	2033	125.0	- (a)
Total debentures				1,400.0	1,275.0
Less sinking fund investments in own debentures				43.8	46.0
				1,356.2	1,229.0
Government of Canada loans at 5.25% to 7.91% maturing in 2006 to 2014				18.8	25.1
Other				2.2	3.0
				1,377.2	1,257.1
Less payments due within one year				13.4	16.1
				1,363.8	1,241.0

(a) Sinking funds have been established for these issues.

Promissory notes, debentures and long-term loans are unsecured and unconditionally guaranteed as to principal and interest and where applicable, sinking fund payments, by the Province. The Province charges Hydro a guarantee

fee of 1% annually on the total debt (net of sinking funds) guaranteed by the Province, outstanding as of the preceding December 31.

Notes to Consolidated Financial Statements

CF(L)Co.

<i>millions of dollars</i>	2003	2002
First Mortgage Bonds		
7.750% Series A due December 15, 2007 (U.S. \$43.6; 2002 - U.S. \$63.4)	56.4	100.2
7.875% Series B due December 15, 2007	4.4	6.4
General Mortgage Bonds		
7.500% due December 15, 2010	40.5	41.4
	101.3	148.0
Less payments due within one year	17.3	34.1
	84.0	113.9

The First Mortgage Bonds, Series A and B, are repayable in fixed semi-annual and in contingent annual sinking fund instalments. There have been no contingent repayments required in the last five years.

The Deed of Trust and Mortgage securing the General Mortgage Bonds provides for semi-annual sinking fund payments and a balloon payment at maturity. Each semi-annual payment is equal to 1% of the aggregate principal amount outstanding on January 1, preceding each payment date. The General Mortgage Bonds are subordinate to the First Mortgage Bonds.

Due to the contingent nature of the amounts of certain of the sinking fund instalments, it is not possible to be precise concerning long-term debt repayments over the next five years; however fixed sinking fund payments are estimated to average \$13.2 million in each of the years 2004 to 2008 inclusive.

Under the terms of long-term debt instruments, CF(L)Co. may pay cash dividends only out of earnings, as defined, accumulated from September 1, 1976. A shareholders' agreement signed in June, 1999, places additional restrictions on dividends, based on cash flow.

8. EMPLOYEE FUTURE BENEFITS

Pension Plan

Employees participate in the Province's Public Service Pension Plan, a multi-employer defined benefit plan. The employers' contributions of \$4.1 million (2002 - \$3.6 million) are expensed as incurred.

Other Benefits

Additionally, Hydro provides group life insurance and health care benefits on a cost-shared basis to retired employees, and in certain cases, their surviving spouses, in addition to a severance payment upon retirement. Information about these plans is as follows:

<i>millions of dollars</i>	2003	2002
Accrued benefit obligation		
Balance at beginning of year	37.5	28.5
Current service cost	1.3	0.9
Interest cost	2.6	2.0
Actuarial loss	-	7.5
Past service cost	-	0.4
Benefits paid	(1.9)	(1.8)
Balance at end of year	39.5	37.5
Plan deficit	39.5	37.5
Unamortized actuarial loss	(7.1)	(7.5)
Unamortized past service cost	(0.4)	(0.4)
Accrued benefit liability at end of year	32.0	29.6

Notes to Consolidated Financial Statements

8. EMPLOYEE FUTURE BENEFITS (Cont'd.)

The most recent actuarial valuation was performed as at December 31, 2002. The significant actuarial assumptions used in measuring the company's accrued benefit obligations include a discount rate of 7.0% and an average rate of compensation increase of 3.5%. In addition, in

determining the expected cost of healthcare benefits, it was assumed that healthcare costs will increase by 12.0% in 2003, and decrease gradually to 5.0% in 2010 and remain level thereafter.

The net benefit plan expense is as follows:

<i>millions of dollars</i>	2003	2002
Current service cost	1.3	0.9
Interest cost	2.6	2.0
Amortization of actuarial loss	0.4	-
Net benefit plan expense	4.3	2.9

9. FINANCIAL INSTRUMENTS

Fair Value

The estimated fair values of financial instruments as at December 31, 2003, and 2002 are based on relevant market prices and information available at the time. The fair value of long-term receivable, long-term debt and the long-term payable is estimated based on the quoted market price for the same or similar debt instruments. The fair value

estimates below are not necessarily indicative of the amounts that Hydro might receive or incur in actual market transactions. As a significant number of Hydro's assets and liabilities, including fuels and supplies and capital assets, do not meet the definition of financial instruments, the fair value estimates below do not reflect the fair value of Hydro as a whole.

	Carrying Value	Fair Value	Carrying Value	Fair Value
<i>millions of dollars</i>	2003		2002	
Financial Assets				
Sinking funds	70.1	76.3	48.7	54.2
Long-term receivable including amount due in one year	166.2	166.2	138.1	138.2
Financial Liabilities				
Long-term debt including amount due in one year	1,478.5	1,769.6	1,405.1	1,670.4

Cash and cash equivalents, short-term investments, accounts receivable, bank indebtedness, accounts payable, accrued interest and promissory notes are all short-term in nature and as such, their carrying value approximates fair value. At December 31, 2003, of the total accounts receivable balance outstanding approximately 50.0% (2002 - 46.9%) is due from a regulated utility, and 24.0% (2002 - 25.1%) from Hydro-Québec.

Sinking Funds

Sinking fund investments consist of bonds, debentures, promissory notes and coupons issued by, or guaranteed by, the Government of Canada or any province of Canada, and have maturity dates ranging from 2009 to 2031. Hydro debentures which Management intends to hold to maturity are deducted from long-term debt while all other sinking fund investments are shown separately on the balance sheet as assets. Annual contributions to the various sinking funds are as per bond indenture terms, and are structured to ensure the availability of adequate funds at the time of expected bond redemption. Effective yields range from 5.33% to 9.86% (2002 - 5.80% to 10.55%).

Notes to Consolidated Financial Statements

10. INTEREST EXPENSE

<i>millions of dollars</i>	2003	2002
Gross interest		
Long-term debt	109.9	105.3
Promissory notes	5.7	5.0
	115.6	110.3
Amortization of debt discount and financing expenses	1.0	1.3
Provision for foreign exchange losses	2.2	2.2
Foreign exchange gain	(1.0)	(0.1)
	117.8	113.7
Less		
Recovered from Hydro-Québec	3.2	5.3 (a)
Interest capitalized during construction	7.3	7.7
Interest earned	21.9	15.1
Net interest expense	85.4	85.6
Debt guarantee fee	13.9	12.2
Net interest and guarantee fee	99.3	97.8

(a) Under the terms of the Power Contract, CF(L)Co. recovers the difference between interest calculated at the rates prescribed in the Power Contract and interest paid on its long-term debt.

Also, CF(L)Co. can request Hydro and Hydro-Québec to make advances against the issue of Subordinated Debt Obligations, to service its debt and to cover expenses if funds are not otherwise available. If such request fails to attract sufficient advances, CF(L)Co. can require

Hydro-Québec to make additional advances, against the issue of units of Subordinate Debentures and shares of common stock, to service its debt and to cover its expenses that remain unfunded.

11. COMMITMENTS AND CONTINGENCIES

- (a) Under the terms of a sublease with Twin Falls, expiring on December 31, 2014, CF(L)Co. is required to deliver to Twin Falls, at an agreed price, horsepower equivalent to the installed horsepower of the Twin Falls plant and to maintain Twin Falls' plant and equipment.

The results of a recent Environmental Site Assessment ("ESA") conducted at the Twin Falls Generating Station indicate higher than acceptable concentrations of contaminants in the soil and waters adjacent to the powerhouse. Further testing is to be conducted to determine the extent of contamination, and a remediation plan will be developed in consultation with regulatory agencies. At this time the magnitude of potential liability cannot be estimated due to insufficient knowledge of the extent of contamination. Further, there is uncertainty with respect to whether Twin Falls or CF(L)Co. is responsible for any environmental liabilities that are determined to exist.

- (b) Hydro has received claims instituted by various companies and individuals with respect to outages and

other miscellaneous matters. The aggregate of these claims, less any amounts that have been provided for in Hydro's financial statements is approximately \$16.2 million (2002 - \$6.4 million). The final resolution of these matters is currently under negotiation.

Legal proceedings have been commenced against Hydro by one of its customers claiming approximately \$22.4 million related to outages and plant shutdowns. Hydro is defending this claim and Management believes that this claim will not be successful.

- (c) Outstanding commitments for capital projects total approximately \$14.1 million at December 31, 2003 (2002 - \$23.8 million).
- (d) In connection with the Granite Canal development, Hydro has issued an irrevocable Letter of Credit, in the amount of \$5.4 million to ensure compliance with the terms of the Fish Habitat Compensation Agreement between Hydro and the Department of Fisheries and Oceans.

12. COMPARATIVE FIGURES

Certain of the 2002 comparative figures have been reclassified to conform with the 2003 financial statement presentation.

Financial Statistics

<i>Years ended December 31 (millions of dollars)</i>	2003	2002	2001 ⁽²⁾	2000	1999 ⁽¹⁾
OPERATING RESULTS					
Revenue					
Energy sales	407.8	399.6	374.8	357.0	384.4
Rentals and royalties	0.3	0.3	0.3	0.3	0.4
Recovery of costs in RSP	16.7	14.0	11.2	13.9	15.4
Guaranteed winter availability	11.9	9.5	7.5	4.6	3.6
Other	4.8	4.2	3.3	3.9	2.4
	441.5	427.6	397.1	379.7	406.2
Expenses					
Operations and administration	125.8	125.8	119.1	119.4	112.3
Amortization of RSP costs	16.7	14.0	11.2	13.9	15.4
Fuels and power purchased	110.7	89.0	65.8	58.3	48.2
Depreciation	45.0	43.0	44.5	47.7	51.3
Interest	99.3	97.8	102.5	105.5	107.6
	397.5	369.6	343.1	344.8	334.8
Income before unusual items	44.0	58.0	54.0	34.9	71.4
Write down of capital assets	130.9	-	-	-	16.7
Net income (loss) before non-controlling interest	(86.9)	58.0	54.0	34.9	54.7
Non-controlling interest	(12.3)	-	-	-	3.1
Net income (loss)	(74.6)	58.0	54.0	34.9	51.6
Contributions to net income (loss)					
Hydro Corporate	18.1	40.9	40.4	17.4	31.7
CF(I)Co.	16.3	17.1	13.6	17.5	19.9
GIPCo.	(96.3)	0.0	0.0	0.0	0.0
LCDC	(12.7)	0.0	0.0	0.0	0.0
FINANCIAL POSITION					
Total current assets	143.1	140.2	141.2	129.7	137.8
Total current liabilities	271.1	326.4	360.6	378.8	163.1
Net working capital	(128.0)	(186.2)	(219.4)	(249.1)	(25.3)
Capital assets	2,573.5	2,650.4	2,545.6	2,459.5	2,414.9
Accumulated depreciation	780.5	745.7	707.6	669.6	628.6
Capital assets, net	1,793.0	1,904.7	1,838.0	1,789.9	1,786.3
Sinking funds	70.1	48.7	42.7	35.4	28.8
Other assets	225.1	225.7	202.3	186.6	188.1
Long-term debt	1,447.8	1,354.9	1,156.7	1,043.3	1,226.4
Other liabilities	34.5	44.4	43.3	50.9	25.3
Shareholder's equity	477.9	593.6	663.6	668.6	726.2
STAFFING LEVELS AT YEAR END					
Full Time Equivalents (FTE) ⁽³⁾	1,190	1,220	1,240	-	-

(1) Effective June 18, 1999, Hydro adopted the proportionate consolidation method of accounting for its interest in CF(I)Co. (65.8%).

(2) Restated to reflect Churchill Falls' adoption of new recommendations of the Canadian Institute of Chartered Accountants with respect to foreign exchange gains and losses.

(3) Hydro has adopted the full time equivalent (FTE) method of reporting its staffing levels. Data on an FTE basis is not available prior to 2001.

Operating Statistics

Years ended December 31	2003	2002	2001	2000	1999
INSTALLED GENERATING CAPACITY (rated MW)					
CF(L)Co.	5,428	5,428	5,428	5,428	5,428
Twin Falls	225	225	225	225	225
Hydro					
Hydraulic	939	899	899	899	899
Thermal	640	640	640	640	645
Diesel	57	57	58	58	58
Total	7,289	7,249	7,250	7,250	7,255
ELECTRIC ENERGY GENERATED, NET (GWh)					
CF(L)Co.	33,457	35,516	32,910	35,143	34,508
Hydro					
Hydraulic	4,321	3,986	3,959	5,016	4,801
Thermal	1,950	2,380	2,095	966	914
Diesel	49	48	46	43	41
Total	39,777	41,930	39,010	41,169	40,264
ELECTRIC ENERGY SALES (GWh)					
CF(L)Co.					
Export	28,647	30,782	28,159	30,268	29,674
Hydro					
Utility	4,642	4,589	4,423	4,263	4,084
Rural	878	894	832	842	830
Industrial	1,711	1,675	1,528	1,607	1,343
Export	1,439	1,481	1,558	1,494	1,731
Total	37,317	39,421	36,500	38,474	37,662
AVERAGE RATE (cents per kWh)					
CF(L)Co.					
Export	0.25	0.25	0.27	0.27	0.27
Hydro					
Utility	4.79	4.60	4.50	4.49	4.49
Rural	5.68	5.59	5.60	5.53	5.54
Industrial	3.14	3.08	3.14	2.85	3.58
Export	2.27	2.27	2.22	2.22	2.22
TRANSMISSION LINES (km)					
CF(L)Co.					
735 kV	608	608	608	608	608
230 kV	431	431	431	431	431
Hydro					
230 kV	1,608	1,533	1,534	1,536	1,536
138 kV	1,500	1,533	1,533	1,533	1,533
69 kV	589	586	587	586	586
Total	4,736	4,691	4,693	4,694	4,694
PEAK DEMAND (MW)					
CF(L)Co. System	5,615	5,587	5,637	5,606	5,590
Hydro System	1,402	1,403	1,262	1,240	1,265

Executive Management



Left to right: Fred Martin, John Roberts, Bill Wells, Jim Haynes, Maureen Greene

Board of Directors

NEWFOUNDLAND AND LABRADOR HYDRO



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Lawyer
Benson Myles



Bruce Saunders
Deputy Minister
Department of Mines
and Energy



Terry Goodyear
Professional Engineer
(Retired)



Elmer Harris
Retired



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Executive Vice-President
Instrumar Ltd.



William Kelly
Electrician
Wabush Mines



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MoneyWit Inc.



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Educational Consultant



Danny Dumaresque
Businessman



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Executive Officer
Newfoundland and
Labrador Hydro

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Benson Myles

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Corporate Affairs and
Secretary General
Hydro-Québec

Thierry Vandal
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Hydro-Québec Production

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Leonard Stirling
Business Executive (Retired)

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Nor-Lab Limited

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Chief Executive Officer
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David Burpee
James R. Haynes

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John C. Roberts

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Cost Management
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Strategic Planning and
Implementation
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Stephen Fontanals
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Wabush Mines

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Newfoundland and
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Vice-President, Finance
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Newfoundland and
Labrador Hydro

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Vice-President, Production
Newfoundland and
Labrador Hydro

Gerald P. Kohanski
General Manager, Materials
and Energy
Cleveland-Cliffs Inc.

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and Corporate Secretary

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Vice-President, Finance
and Chief Financial Officer

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Vice-President, Transmission
and Rural Operations

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Assistant Corporate
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Mark G.S. Bradbury
Director, Finance

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Vice-President, Finance and
Chief Financial Officer

Andrew E. MacNeill
General Manager

Mark G.S. Bradbury
Director, Finance

Peter A. Hickman
Corporate Secretary

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Chief Executive Officer

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Vice-Chair

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Corporate Secretary

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Treasurer

Peter A. Hickman
Assistant Corporate
Secretary

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and Chief Financial Officer

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Chief Executive Officer

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Vice-President, Production

Maureen P. Greene
Vice-President, Human
Resources, General Counsel
and Corporate Secretary

John C. Roberts
Vice-President, Finance and
Chief Financial Officer

Mark G.S. Bradbury
Treasurer

Peter A. Hickman
Assistant Corporate
Secretary

INVESTING IN OUR COMMUNITIES

Newfoundland and Labrador Hydro is an integral part of this Province. As a Crown Corporation, we work hard to maintain a strong presence in communities throughout Newfoundland and Labrador. We believe that contributing to worthwhile causes enriches community life and that a prospering community creates, in turn, a positive climate for everyone.

In 2003, Hydro supported over 50 organizations in their efforts to improve the quality of life for Newfoundlanders and Labradorians including: the Arthritis Society, Dr. H. Bliss Murphy Cancer Centre, Captain William Jackman Memorial Hospital, Central

Newfoundland Regional Health Centre, Cerebral Palsy Association of Newfoundland, Epilepsy Newfoundland and Labrador, General Hospital Health Foundation, Grenfell Regional Health Services, Health Labrador Corporation, Heart and Stroke Foundation of Newfoundland and Labrador, Janeway Children's Hospital Foundation, Autism Society of Newfoundland and Labrador, Canadian National Institute for the Blind, School Lunch Association, Canadian Red Cross - Badger Relief Fund, Community Food Sharing Association, Seniors Resource Center, Newfoundland Symphony Youth Choir and AIDS Newfoundland and Labrador.

Glossary of Terms

Cogeneration

The simultaneous generation of electricity and useful heat or steam. The heat could be put to use in an industrial process or to heat a facility or community. The electricity could be used by the owner or sold.

Demand

The rate at which electric energy is delivered at a given instant or averaged over a period of time. It is measured in kilowatts, megawatts, etc.

Distribution

Process of moving electric energy at lower voltages from major substations to customers.

Electrical Energy

The quantity of electricity delivered over a period of time. The commonly used unit of electrical energy is the kilowatt hour (KWh).

Electrical Power

The rate of delivery of electrical energy and the most frequently used measure of capacity. The basic unit is the kilowatt (KW).

Frequency

The number of cycles through which an alternating current passes in a second. The North American standard is 60 cycles per second, known as 60 hertz.

Gigawatt Hour (GWh)

A unit of bulk energy; 1,000,000 kilowatt hours.

Installed Generating Capacity

The rated load that can be supplied by a generating unit, power station or an entire provincial grid system.

ISO14001

A family of environmental management standards developed by the International Organization for Standardization.

Kilovolt (kV)

A unit of pressure, or push, of an electric current; 1,000 volts.

Kilowatt Hour (kWh)

A unit of bulk energy; 1,000 watt hours. The measurement is generally used for billing residential customers.

Load

The amount of electric power or energy consumed by a particular customer or group of customers.

Megawatt (MW)

A unit of bulk power; 1,000 kilowatts. The unit generally used to describe the output of a commercial generator.

Megawatt Hour (MWh)

A unit of bulk energy; 1,000 kilowatt hours.

Mills

1/10 of one cent or 1/1000 of one dollar.

Peak Demand

The maximum amount of electric power consumed by a particular customer or group of customers at a precise time.

Power System

All the interconnected facilities of an electrical utility. A power system includes all the generation, transmission, distribution, transformation, and protective components necessary to provide service to the customers.

Safety Frequency Rate

The number of work-related injuries or illnesses that result in lost work time during the year.

System Average Interruption Duration Index (SAIDI)

The average service interruption length in hours from a customer's point of view. This is used to track the performance in responding to outages. The target is based on historical performance.

System Average Interruption Frequency Index (SAIFI)

The average service interruption frequency from a customer's point of view. This is used to track the overall performance of Hydro's distribution system. The target is based on historical performance.

Substation

A distribution centre principally used for stepping up or stepping down the voltage through transformers.

Terawatt Hours (TWh)

A unit of bulk energy; 1,000,000,000 kilowatt hours.

Transformer

A device that raises or lowers voltages.

Transmission

Process of moving electric power in bulk at higher voltages through the system.

Voltage

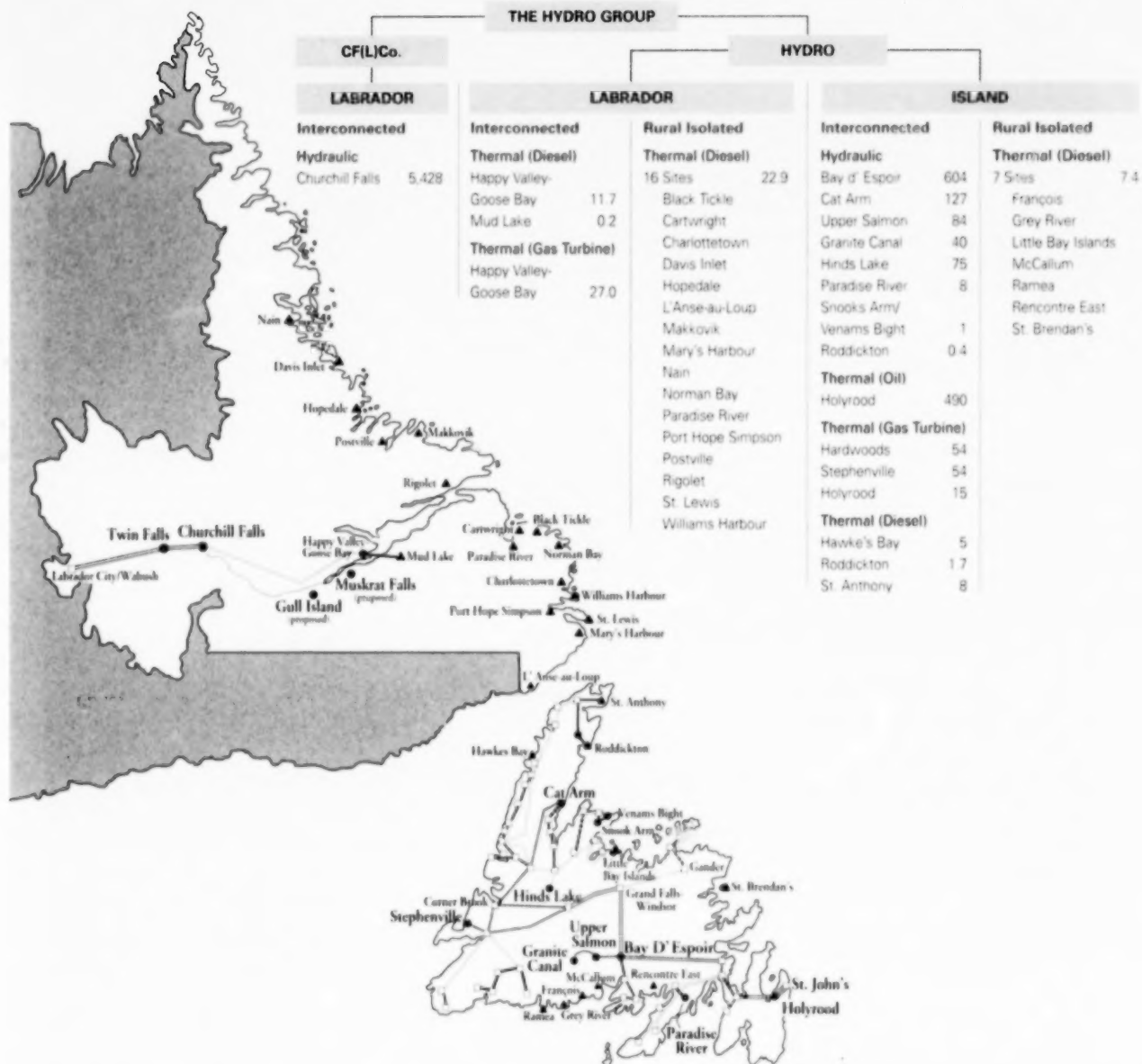
The electrical force or potential that causes a current to flow in a circuit (just as pressure causes water to flow in a pipe). Voltage is measured in volts (V) or kilovolts (kv).
1 kV = 1000 V

Watt

The scientific unit of electric power. A typical light bulb is rated 25, 40, 60 or 100 watts, meaning that it consumes that amount of power when illuminated.

2003 Installed Generating Capacity

Megawatts (MW)



LEGEND

- Generating Station
 - Terminal Station
 - ▲ Diesel Plant
- Transmission Lines
- 735-kV
 - 138-kV
 - Low Voltage
 - 230-kV
 - 69-kV
 - Customer-Owned

2003 GROSS ISLAND INTERCONNECTED ENERGY SUPPLY

Gigawatt hours (GWh)

Hydraulic Generation		Power Purchases	295
Bay d'Espoir	2,505	Percentage of Total Energy Supply	4%
Cat Arm	818	Thermal Generation	
Upper Salmon	520	Holyrood	2,061
Hinds Lake	341	Gas Turbine and Diesel	2
Granite Canal	116		2,063
Paradise River	32	Percentage of Total Energy Supply	31%
Mini Hydro	5		
	4,337		
Percentage of Total Energy Supply	65%		





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